4/7/88 C0175-1 A

American Banker

The Daily Financial Servic

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STATISTICAL REFERENCE INDEX
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VOL. CLIII NO. 68 Thursday, April 7, 1988 153rd Year

Today

Financing activity in the global capital markets picked up considerably in the first quarter, with the volume of new Eurobond issues more than doubling their depressed levels of late 1987. 2

The rates paid for deposits by Southwest banks and thrifts has eased over the past few months, particularly after the closing of one deposit-hungry thrift and the outflow of money from First RepublicBank Corp. 3

Citibank, Bankers Trust Co., and J.P. Morgan Securities Inc. are managing a $100 million corporate debt issue for Private Export Funding Corp. 6

The New Hampshire House agreed to amend the state's interstate banking law to allow a banking company to own a New Hampshire bank as long as the company's headquarters and at least 50% of its deposits are in New England. 6

Aspen banks catering to the rich and sporty relax their style but keep an eye on loans in a town with high altitude real estate prices. 24

Bank Trigger Dates 12
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CONSUMER FINANCIAL SERVICES

MasterCard International unveiled a major television and print advertising campaign built solely around the gold MasterCard. 2

The Reagan administration's decision not to cut back on the collection of some key demographic data in the 1990 U.S. Census has cheered financial industry researchers. 2

A Visa card that combines the functions of a debit card with those of a traditional cash card is being introduced by Lloyds Bank PLC. The card can be used for shopping within the Visa retail network in Britain and abroad and to withdraw cash from automated teller machines. 8

British building societies are moving into the personal checking account market, which has been a traditional stronghold of banks. 8

An ad campaign for First Security Bank, Salt Lake City, shows employees smiling before they knew the candid cameras were running, even when confronted with requests such as minding a pet ostrich. 9

Don't rely on national surveys to determine employee perquisites; let employees choose their own benefits and rewards, writes Jack Whittle. 4

Worth Repeating

How many places can you name where you have Elizabeth Taylor or George Hamilton bopping into your bank to cash a check?

Allen R. Koeneke, president of Pitkin County Bank and Trust Co., Aspen, Colo. [Page 24]

An American Banker Special Report

Banks Garner Few Domestic Merger Deals

Top Banks in Mergers and Acquisitions

1987 transactions as sole adviser, ranked by total deal value

	Overall Rank	Amount (Millions)	Number of Deals
Goldman, Sachs & Co.	1	$63,465.0	134
1. Bankers Trust Co.	13	6,175.7	42
2. Morgan Guaranty Trust Co.	21	2,704.6	26
3. Chase Manhattan Bank	24	2,267.0	27
4. Citibank	29	1,767.5	29
5. Chemical Bank	37	1,076.9	5
6. Security Pacific National Bank[1]	39	985.0	1
7. First National Bank of Chicago[2]	46	693.3	15
8. Maryland National Bank	59	351.2	1
9. Bank of America	NR	115.5	3
10. Mellon Bank	NR	47.0	7

[1]Includes one deal by Security Pacific Capital Australia.
[2]Includes advisory deals by First Chicago Venture Capital.
NR: Not ranked in top 75.

Source: IDD Information Services

Legal, Cultural Bans Retard Progress

By JED HOROWITZ

Fourth of a Series

NEW YORK — Mergers and acquisitions is a matchmaking business, and banks should excel at it.

They've got long lists of traditional clients that are ripe for change and willing to pay for advice on how to expand, restructure, or defend themselves from acquisitive hands.

Yet, until recently, few banks have managed to convert their traditional lending relationships into lucrative advisory mandates.

In 1987, commercial banks captured a slight 7.4% of the market as M&A advisers — the same percentage as in 1986. Only Bankers Trust Co. edged into the ranks of the top 15 advisers measured by dollar amount of deals completed, according to IDD Information Services, a financial data collection company.

"I don't see them that much," said Lawrence N. Lavine, a senior vice president and merger specialist at Donaldson, Lufkin & Jenrette Inc. "Morgan and Bankers Trust have done a good job coming from nowhere. But they're still not a major factor in the business."

"They've got some very good contacts through their commercial banking relationships," agrees Les J. Lieberman, a first vice president who works on thrift and bank deals at Drexel Burnham Lambert Inc. "But aside from a couple of high-profile deals, they haven't convinced their accounts that they have the ability to pro-

Art: Page 22 ➡

Campeau's Federated Purchase Is Money in Bank for Backers

By DAVID NEUSTADT

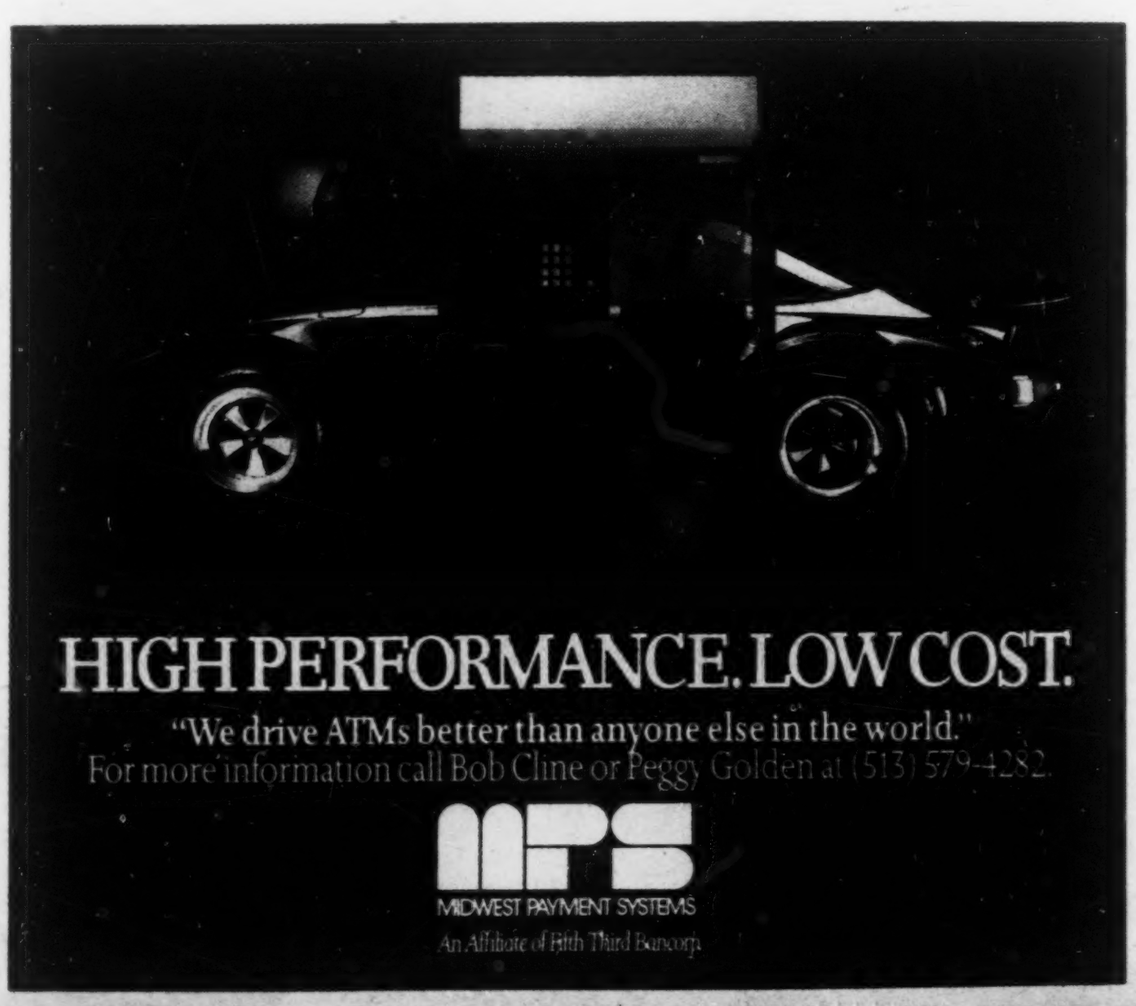
NEW YORK — Campeau Corp.'s $6.6 billion takeover of Federated Department Stores will provide a bonanza for commercial banks and investment banks.

Commercial banks in the syndicate providing Campeau's loan will share at least $106 million in fees on the $3.4 billion facility for the leveraged buyout, according to data provided by Loan Pricing Corp. The investment banks will divide at least $140 million, according to a report in *The New York Times*. About $60 million of that will go to Campeau's advisers, First Boston Corp. and Wasserstein, Perella & Co.

Citibank Wins Lead on Pefco Debt
Page 6

The loan was increased during the course of the 10-week takeover battle as the bidding war continued. Final details of the pricing of the loan, provided by a syndicate of banks led by Citibank and Sumitomo Bank Ltd., are due out today. But the pricing is expected to be similar to that of earlier agreements between the banks and Campeau.

Banks: Page 6 ➡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Incentives: Different Strokes for Different Folks

By JACK W. WHITTLE

WITH a people-oriented business such as banking, success is achieved by determining what your customers and your employees want, and then designing programs to fulfill both sets of needs.

For the past 17 years, we have applied every known research method to learn what motivates an employee to exceed the set standards of performance for his or her position. As we enter a time in which more and more of our profits must come from fee income, we bankers must keep our staff motivated to produce this sorely needed revenue.

Over the past 20 years, two myths have pervaded the banking industry, and seem to still persist. The first is that national averages and research findings are meaningful. For example, someone studies a national sample of bank employees to determine how many are motivated by money, how many by noncash perquisites, how many by working environment, and so on. Then, a community bank applies these national findings because it assumes that local employees fit the national profile. This assumption is ludicrous. Relying on national findings frequently leads the community bank astray.

Whittle Says:

Employees appreciate the opportunity to select the kind of reward that they feel is most meaningful for the tasks assigned.

Looking Beyond the Averages

Whenever we conduct research in a local area and compare our findings with national survey results reported by other organizations, there is seldom a similarity. What good is it to say that the national high temperature average for the United states was 54.7 degrees last year and the national low average temperature was 52 degrees?

There may be academicians somewhere who find national averages useful, but generally they are meaningless. What relevance do these numbers have for our friends in Minnesota or in Arizona? Or, consider the farmers. They want to know when the last freeze will occur in their area. Farmers realize that national weather phenomena mean little to them. This is a regional matter, and in some cases, even narrows down to town and city levels. So it goes with bank research, too.

In some areas, bank customers enjoy using ATMs and drive-ups, in other areas they don't. IRAs may be very popular in one locale, but not in another. Therefore, national reports about ATM or IRA usage and pricing may not apply to your area.

It is the same with compensation programs for employees. Sometimes we find vast differences in staff preferences within a 20-mile geographic radius. Each bank has to assess the wants of its own employees.

This brings me to the second all-pervasive myth. Bankers attend conferences, listen to other bankers expound their great truths, and run up to the podium to request copies of the speech. They want to put the speaker's mythical panacea into place at their own bank. I call this practice justified plagiarism. In most cases it does not work. What applies to one market may not apply to another. Our time would be much better spent if we discussed the methods we could use to discover what our customers and our employees want.

Money Gets Results

Let me give you some ideas on incentive compensation for employees. National studies have suggested that money is not everything. Yet we have discovered in market after market that money is almost everything, particularly with customer contact people.

Employees agree that a bank has the right to measure how well customer service is being provided. They tend to agree strongly that excellent customer service — above and beyond what the bank requires — should be rewarded.

As part of each bank's survey, we develop indexes for sales and service consciousness, which help us determine the likelihood that a certain bank's staff will embrace a disciplined approach to service.

One thing that we have discovered lately is that rewarding employees with points that are accumulated toward a prize is diminishing rapidly in importance. A better approach is to offer a range of incentives, much like the selection of food choices available at a cafeteria or smorgasbord. Employees appreciate the opportunity to select the kind of reward that they feel is most meaningful for the tasks assigned. Following are some comments about each of several possible incentive options.

• Money. This ranks high as a reward. It may take the form of competitive wages, bonuses, commissions, or draw accounts. Space restrictions do not allow a detailed definition of each form. However, I predict that most bankers will be authorities on cash-based incentive programs before the end of the century.

• Employee benefits. Employees very much appreciate a full benefit package. This includes life, health, major medical, dental, and auto insurance, along with a pension, legal services, free checking, paid vacations, paid holidays, and education reimbursements.

• Status symbols. Though somewhat appealing in certain areas, banks have generally overrated the importance of status symbols. I refer specifically to office size and view, job title, parking space, company car, membership fees, serving on special task forces, inclusion in special meetings, and a private secretary.

• Opportunities for growth and visibility. Rewards here consist of being assigned to represent the bank at a public meeting, being chosen as a spokesperson for the bank, and pursuing training opportunities, both in-house programs and professional or academic courses. The young go-getters especially like these benefits. Excellent career advancement opportunities can be the "carrot" for motivating people to sell more and to provide better service.

• Power and authority. Once again, banks have overused the practice of saying: "If you do well, we will make you an officer." This is probably the biggest stumbling block in creating harmony among your troops. Banks that traditionally have emphasized officer/nonofficer designations have a difficult time with building organizational pride and esprit de corps among their customer contact people.

Many banks are eliminating these titles and are taking steps not to split benefits (e.g., places of eating and length of vacation) along officer/nonofficer lines.

• Flex time. Another great motivator is flexibility in job assignments, working hours, job sharing, and rotating assignments. This appeals most to those who achieve success in showing others how to deliver excellent service.

I am happy to observe that banks are beginning to understand that there are different creative ways to reward outstanding service. Med Center Bank in Houston has a committee for selecting an outstanding employee of the month. A picture of the employee appears in the bank lobby and in the bank newsletter. The clincher is that the 12 employees who are selected over the year get together for a Christmas picture at a florist shop in late November, and this photo is used for the bank's Christmas card. This clever idea is very effective.

Some banks give their high sales performers the best parking spots — typically those that would be reserved for

Marketing: Page 20 ➡

Mr. Whittle is the chairman of Whittle & Hanks Inc., a financial services consulting firm in Chicago.

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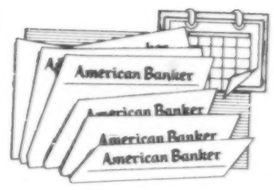
FLASHBACKS

What made news in the *American Banker* this week...



40 Years Ago

• The First National Bank of Palm Beach, Palm Beach, Fla., converted a window that once faced its parking lot into an "outdoor banking" counter. The bank created its "Auto Teller" by cutting the window in half, running a counter across it, and building a small section to swing open as a teller's window.

• Treasury Secretary John W. Snyder denied reports by a columnist that he would resign.

20 Years Ago

• Banks in several areas of the country were closed April 9 in respect for the memory of Martin Luther King Jr., who was assassinated on April 4.

• The nation's only female state bank supervisor said banks would be wise to consider women for more executive posts. "Fear, tradition, and outmoded prejudices are preventing banks from taking advantage of their most available manpower resource: womanpower," said Freyda P. Koplow, Massachusetts commissioner of banks. She said barriers against female business executives would inevitably fall. "The question is," she said, "can the banks afford to be the last holdouts?"

10 Years Ago

• The Federal Reserve Board proposed a regulation to prohibit bank holding companies from selling insurance to themselves and to nonbank subsidiaries.

• Fed Governor Philip E. Coldwell said demands that the Fed charge for its services and reduce its involvement in the nation's payments system were a "devious" attempt by large correspondent banks to enhance their dominant position in the banking industry. Mr. Coldwell said he questioned the motives of many of the nation's largest banks, which were arguing that unbundling Fed prices would allow the private sector to compete equitably with the Fed to provide automated clearing house services, check clearing, and other correspondent banking services.

• A shareholder resolution calling for an end to loans to the government of South Africa was defeated at the annual stockholders meeting of the First National Bank of Boston.

5 Years Ago

• The First National Bank of Chicago said it would stop handling the South African Krugerrand gold coin. A bank spokesman said the decision was purely commercial and had nothing to do with a campaign against its sale by the Dominican Fathers and Clergy and Laity Concerned — two religious groups opposed to any link with South Africa's apartheid policies. Both groups had objected to Krugerrand sales and had protested at the bank's annual meeting for the past several years.

1 Year Ago

• Fourteen anti-apartheid protesters were arrested for blocking Citibank headquarters in New York with a makeshift shanty. The demonstrators, members of the American Committee on Africa, demanded that Citibank close its two branches in South Africa.

• The House Banking Committee approved a bill to require next-day access to funds from most local checks, and access within four days to funds from nonlocal checks. The bill also required banks and thrifts to begin calculating interest on checks deposited into interest-bearing accounts on the day of deposit.

• The Treasury Department announced tougher transaction-reporting requirements for financial institutions as part of the government's crackdown on money laundering.

• Losses from bank fraud and embezzlement in 1986 topped the $1 billion mark for the first time, according to statistics from the Federal Bureau of Investigation. Fraud perpetrated by bank officers and employees, however, declined as a percentage of total bank frauds.

— Domenica Trevor

April 7, 1988, American Banker

Art of Dealmaking Is Not in Average Bank's Curriculum

Continued from Page 1

vide M&A services."

One reason banks have moved sluggishly into mergers is a corporate culture that until recently had been unwilling to reward nimble, deal-oriented managers. Banks have also come to the belated realization that traditional profits from bankrolling corporate America are rapidly fading.

Banks have suffered as well from legal prohibitions against underwriting and dealing in securities, activities that are fundamental to developing many merger strategies.

"M&A often requires a judgment of equity markets and of market players' reactions to strategic steps," says Tracy Lavery, a managing director in charge of private placements and syndication at Chemical Bank. "You can have smart individuals in your mergers group, but if they don't have access to national-class or world-class expertise in various kinds of trading markets, it is somewhat tougher to give the same level of advice as we do in other areas."

Despite the handicaps, a handful of larger banks are aggressively pursuing merger assigments — Bankers Trust, Morgan Guaranty Trust Co., and Citibank are mentioned most frequently by competitors — and a number of smaller banks are backing into the business.

Moreover, they are doing so as corporate marriages — shotgun or otherwise — continue to thrive. The pace of mergers and acquisitions remains strong, propelled by low stock prices from last October's stock market crash, a weak U.S. dollar, and foreigners' huge appetite for U.S. investments. Big commercial banks with strong international contacts should be positioned well for this activity.

> The chief rap against banks has been their inability or unwillingness to pay the salaries that will attract top dealmakers.

"You're going to have the large money center banks continue to chip away at some of the bigger deals and take that from the major investment banking houses," said Eugene Kotlarchuk, group head of corporate finance and M&A at Marine Midland Bank.

"Then you'll have some of the strong regional banks with corporate finance groups go after the middle-market types of deals that the bigger houses don't want. When you start getting into the smaller banks, you would have a rough time being profitable because of the cost of getting professionals on board."

Reaching for the Big Prize

Profits, of course, are the brass ring. Advisers are paid a percentage of the size of the deal. Commercial banks, however, have not as a ruleparticipated in the megabuck deals that bring in the high fees.

"As a general matter, banks are much more active in the friendly divestiture end of the scale, which is the low end of the market in transaction size," said Edward S. Annunziato, a director in charge of banking industry mergers at Merrill Lynch Capital Markets.

The biggest deal last year for First National Bank of Chicago was its role as adviser to Day International, which was sold for $350 million, according to Andrew Robertson, a managing director at the bank. The Dayton, Ohio, rubber and plastics manufacturer was bought by Cleveland manufacturer M.A. Hanna Co. Even on that deal, First Chicago shared some of the fees with Salomon Brothers, which wrote a fairness opinion for Day.

Mr. Robertson said First Chicago closed 18 deals last year. "Most of what we work on are strategic acquisitions and divestitures — medium-sized transactions between $20 million and $300 million — for Fortune 1,000 companies."

Security Pacific National Bank reaps between 1.5% and 2% on a typical $20 million deal, says Gary Byrd, who was recently appointed to revive a moribund M&A group at the bank. But many investment banks would sneer at deals of the size Mr. Byrd described.

Bankers Trust's mergers and acquisitions group advised on $6.1 billion of deals in 1987 — 13th among all advisers but not within sneezing distance of the $63 billion of transactions shepherded by Goldman, Sachs & Co. Nevertheless, the group was profitable after three difficult starting years, said David E. Dougherty, managing director and head of the group.

Mr. Dougherty also disputes claims that commercial banks are unable to nurture investment bankers. "I never made a loan," he boasts, "and therefore I have always viewed myself as an investment banker."

"The barriers to entry in M&A are as great as in any area you can think of," Mr. Dougherty says. "But we are now at the point where the perception issue — the view that we can or cannot do the deal — is the most important thing."

It's Hard to Attract Dealmakers

The chief rap against banks has been their inability or unwillingness to pay the salaries that will attract top dealmakers. "To really be a major player in the business, you have to have the top talent," Mr. Lieberman says. "You don't see a lot of people moving from the top spots in the most prestigious M&A departments to the banks."

And without high-powered dealmakers, banks don't see the deal flow that is needed to train homegrown talent, adds Mr. Annunziato.

Commercial bankers, though, insist the culture is changing. "We couldn't attract the talent we have and keep it if we were not competitive on salaries and bonuses," Mr. Dougherty claims. About 90% of the senior professionals in Bankers Trust's M&A group were hired from outside the bank, he says.

Banks appear to be taking two approaches to the business. The powerhouses are throwing big bucks at building staff and chasing the billion-dollar deals. The next tier of banks are more modestly pursuing pettier prizes, of-

Domestic: Page 23

An American Banker Feature Edition

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May 23 & 24, 1988

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Wednesday April 6, 1988

Money Market

Federal funds range 6⅞%-7¼%
Prime rate (2/4/88) 8.50%
Discount rate FRB of New York (9/4/87) 6.00%

Call loans on securities, to brokers on stock exchange collateral 7.50%

Bankers acceptances offering rate, discount (4/6)
30 days: 6.65 60 days: 6.65 90 days: 6.68
120 days: 6.72 180 days: 6.77

Certificates of deposit, highest offering rate, at New York City banks (4/6)
14 days: 6.50 30 days: 6.65 60 days: 6.70
90 days: 6.80 120 days: 6.85 150 days: 6.95
180 days: 6.95 270 days: 7.20 360 days: 7.40

Commercial paper, dealer Aaa, discount (4/6)
30 days: 6.60 60 days: 6.65 90 days: 6.70

Commercial paper, directly placed, discount (4/6)
5-14 days: 6.40-6.75 15-29 days: 6.55-6.60
30-59 days: 6.50-6.70 60-89 days: 6.50-6.70
90-179 days: 6.50-6.70 180-270 days 6.50-6.70

Treasury-bill rates, secondary market, bid (4/6)
90 days: 6.04 180 days: 6.19 1 year: 6.58

Eurodollar deposits, London bid (4/6)
Overnight: 7⅛ 7 days: 6 13/16 1 month: 6⅞
3 mos.: 7.00 6 mos.: 7 3/16 1 year: 7⅝
NIBOR: 7⅛% LIBOR: 7¼%

The Bond Buyer Municipal Bond Index

	4/6/88	4/5/88	3/30/88
Index	93.87	93.37	93.33
Yield to Par Call	8.42	8.49	8.46
Yield to Maturity	8.17	8.21	8.17

The Bond Buyer Municipal Bond Index was designed by the Chicago Board of Trade as the basis for long-term municipal bond futures contracts. It is an average obtained when the price of 40 select term bonds is divided by the amount at which each bond would be priced to yield 8%. The Index is computed daily and quoted in points and 32nds.

Futures Markets

3-Month Treasury-Bill Futures (IMM)*

Delivery	High	Low	Settle	Chg(a)	Yld(b)
June '88	93.96	93.88	93.94	unch	6.06
Sept '88	93.67	93.60	93.66	+ 1	6.34
Dec. '88	93.38	93.32	93.38	+ 2	6.62
Mar. '89	93.14	93.06	93.12	+ 2	6.88
Jun. '89	92.94	92.84	92.90	+ 3	7.10
Sept '89	92.75	92.64	92.71	+ 2	7.29
Dec. '89	92.50	.....	92.52	+ 9	7.48

As of the previous day's close; Total no. of contracts traded: 4,877 total open interest: 23,351 and change in open interest: - 559

Footnotes to Futures Tables:
*For 3-month Treasury bills with a face value at maturity of $1 million. a–Change from previous day's settlement price in basis points. b–100.00 minus settlement price. IMM–Traded on the International Monetary Market, a division of the Chicago Mercantile Exchange. r–New record high in open interest.

American Banker Index

Selected Money Center Bank Stocks*

			High	Low	Last
Apr. 6	240.1	1988:	265.6	227.7	240.1
Apr. 5	236.6	1987:	401.7	212.0	234.6
Apr. 4	242.6	1986:	388.7	331.2	331.3
Mar. 31	244.3	1985:	344.2	242.7	344.2
Mar. 30	246.3	1984:	269.6	178.4	246.3

* Based on midday prices.

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An American Banker Special Report

Domestic M&A Business Still Eludes the Banks

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fering their middle-market customers valuations, fairness opinions, and general corporate finance advice.

"There's been a lot more smoke than fire with regional banks in M&A," says Felice Gelman, a senior analyst who follows regionals for Dillon, Read & Co. "It's a function of pursuing your own client base, and banks with strong commercial banking relationships have been somewhat successful. But the main area of success has been with smaller, owner-operated companies."

The billion-dollar deals, of course, grab the headlines. Last year, Bankers Trust completed two of them — a $2.1 billion sale of several hundred unprofitable Hospital Corporation of America units to HealthTrust Inc., an Employee Stock Ownership Plan, and Goodman Fielder Ltd.'s $1.5 billion takeover of Wattie Industries Ltd. Bankers Trust also represented Yasuda Mutual Life Insurance Co. on its $305 million investment in PaineWebber Group Inc. — a deal in which J.P. Morgan & Co. represented the brokerage firm.

Morgan Takes Center Stage

This year, it's been Morgan's turn to shine — though not without controversy. Morgan came in for some heavy hissing when it surfaced as adviser to F. Hoffmann-La Roche & Co. on the Swiss drug giant's unsuccessful $4.2 billion bid for Sterling Drug Inc. The chairman of Sterling publicly rebuked Morgan chairman Lewis T. Preston for the bank's "unethical conduct in aiding and abetting a surprise raid on one of its longtime clients."

Most bankers, however, lauded Morgan — which also has been recruited by Irving Bank Corp. to act as a special adviser in fending off Bank of New York Co.'s hostile overtures. "Morgan has catapulted banks into the front ranks of M&A on that deal," said Security Pacific's Mr. Byrd. "There was a problem with Sterling, but net-net it gave banks credibility in their ability to act as more than just a lender."

Morgan officials were characteristically taciturn about the deal, but one source close to the M&A department said the bank knew what it was doing.

"I think the Hoffmann-Sterling bid was a very calculated thing for us," he said. And Morgan, he pointed out, is not backing away from other deals that could antagonize old banking relationships.

It is now advising SmithKline Beckman Corp. on a successful $400 million bid for International Clinical Laboratories Inc. — an offer that was made despite a definitive agreement by Corning Glass Works to buy the company. Corning not only was a Morgan customer, but had named Morgan as depositary bank on its tender offer. Corning also reported that Morgan was increasing its credit line in order to complete the deal.

Bankers Trust has not completed any hostile deals since it began a mergers business in earnest in 1985, but it won't "rule them out categorically," Mr. Dougherty says. "We have worked with clients who have contemplated less than friendly actions, but for various and sundry reasons they did not reach a ripened stage." On the other hand, he said, the bank has some general guidelines on protecting a client's interest, and "on numerous occasions" has rejected deals.

Why jeopardize an old lending relationship for a transitory advisory fee? Morgan is reaping $2 million on the SmithKline deal, and would have captured $8 million if the Hoffmann bid had succeeded. (It kept a $1 million up-front fee from the Swiss firm.) Even these numbers, however, have drawn criticism from some investment bankers who accuse banks of underpricing their advisory services and "buying" deals.

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Sour grapes, reply the commercial bankers.

"We have not taken any leadership in price cutting, and fees are never the determining consideration," says Mr. Dougherty. "You've got to have a better idea, a better product, and better service to get business in mergers and acquisitions."

Security Pacific's Mr. Byrd says that the underpricing charge may be true, but he adds that the pricing will even out. "I expect you'll see some of the old-line investment banks downtier, while we uptier a bit," he says.

Going After Small Fry

Meanwhile, most banks building an M&A business are going after smaller clients that most of Wall Street does not know or care to know. A recent investment banking group newsletter from Manufacturers Hanover Trust Co., for example, says that its 15-person M&A department is offering advice "on smaller transactions that would otherwise get minor attention from the giant dealers." Manufacturers Hanover, whose numbers were not included in the IDD statistical table accompanying this article, says it acted as sole adviser in 1987 on six deals worth $450 million.

In their own ways — despite the occasional conflicts of interest — both big and small banks realize that their traditional relationships are the source of their biggest M&A business. Bank M&A departments tend to rely heavily on their commercial lending colleagues.

"About two-thirds of our deals get started with tips from relationship bankers," says First Chicago's Mr. Robertson. "They get rewarded at yearend."

At Security Pacific, the bank's account officers have introduced all seven mandates that the M&A department is now working on. The account executives' departments, in turn, will be allocated a hefty 50% of the advisory fees, Mr. Byrd said.

Most bankers think that split is too generous, but agree with the concept.

"Those intermediaries that are closest to their customers are the ones that will do well," asserts Mr. Kotlarchuk. Marine Midland has established a "boot camp" in which lending officers are exposed for two weeks to the banks' full range of corporate finance activities. He said Marine completed a handful of deals in 1987, but now has more than half a dozen mandates.

Even the larger banks know that their bread and butter is in their traditional relationships and their strong capital. "We offer what Wall Street can't — broader international relationships, for the most part, and a certainty in financing" says Mr. Dougherty. "About 50% of the business we're doing is initiated by the people in the M&A department, but the other 50% is based upon some other relationship within the BT community."

Cross-Border Deals Loom Large

The international element is a big one for the banks. About 40% of Bankers Trust's deals were cross-border in 1987. Citibank and Morgan also have a high proportion of international clients on their M&A rosters.

"Cross-border deals will dominate the '88 activity," says Security Pacific's Mr. Byrd. Although the bulk of the banks' solicitations are being made on its California turf, "we are cultivating Britain, Japan, Canada, and Australia for the sellers that we represent," he says.

Banks also are strong leveraged-buyout lenders and they have parlayed this relationship into M&A work. Bankers Trust recently was named adviser to a senior management group that is attempting to purchase J.P. Stevens & Co. Bankers and Chemical Bank also have agreed to provide $420 million of financing for the merger.

The relationship becomes tricky, however, when the same bank acts as both lender and corporate adviser. Banks cannot legally commit a loan on the condition that they be hired as adviser. But there is a clear link between lending and advising. Citibank, for example, last year moved its merger and acquisition group from its investment banking sector to its institutional bank.

It is sometimes difficult to draw a line between leveraged-buyout transactions — which banks fund and advise — and merger advice. However, the accompanying table reflects only deals in which banks acted as sole M&A adviser.

With all the problems, bankers are relatively optimistic about the future. "The corporate finance and M&A business can be and is profitable at many banks," says Marine Midland's Mr. Kotlarchuk. "The caution is that if every single bank opened up corporate finance groups to do M&A, then there would not be enough business to be profitable." ■

In a five-part series, the *American Banker* looks at the progress commercial banks have made in investment banking. Following reports on private placements, global corporate finance, and interest rate swaps, the series concludes Friday with a review of legally permissible underwriting and advising activities in the bond market.

Aspen Banking is Far From Business as Usual

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$22,000 for a head teller. Consequently, Central Bank maintains nine apartments in an adjacent building, renting them to employees for one-third below current market rates.

Mona Kochaver, assistant secretary for Aspen Savings and Loan Association, lives about two miles from the center of town in employee housing, designated as such by the local government. Rent increases and resale prices on the apartments and houses are regulated, and the intervention is badly needed, Ms. Kochaver says.

"You'll see perhaps 80 openings for tellers listed in the paper," she says, "and maybe 10 adequately priced housing units listed."

But for skiers, there is no better place to work. Aspen Savings, like many businesses, gives employees ski lift tickets as perks.

"If it wasn't for the skiing, I wouldn't be here," says George Hart, vice president of commercial lending at the Bank of Aspen.

He bemoans the long hours, pressure, and lack of parking spaces that are part of life in Aspen between November and April. "But at home," he says, "I walk out my door into one of the greatest vacation towns in the world." ■